Statement by Bob Metz, President
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Before the

Committee on Agriculture
U.S. House of Representatives

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Good afternoon, Mr. Chairman and Members of the Committee. I am Bob Metz, a soybean and corn farmer from West Browns Valley, South Dakota. I currently serve as President of the American Soybean Association. ASA represents over 25,000 producer members on national issues important to all U.S. soybean farmers. We very much appreciate the opportunity to appear before you today.

The outcome of the current negotiations on a new WTO agreement is critically important to U.S. soybean producers. Let me give you a brief description of the trade environment we currently face. One-half of our annual soybean production is exported, either as soybeans, soybean oil and soybean meal, or in the form of livestock products. World demand for soybeans is increasing rapidly as developing countries, which have very low per capita consumption of these products, improve their standard of living and diet. Many developing countries have high tariffs on soy and livestock products. As a result, improving market access through meaningful tariff reductions in developing countries is a high priority to enhance the profitability for soybean farmers and our industry.

U.S. soybean farmers also are facing rising competition from South American producers, particularly in Brazil and Argentina. Over the past decade, these countries have emerged as world-class exporters, with mature agricultural research, production, and processing infrastructure and improving transportation systems. Both Brazil and Argentina use a variety of incentives to encourage production and exports of soybeans and other crops. However, they have been allowed under the Uruguay Round Agreement to designate themselves as developing countries and to avoid disciplines on their domestic support and export programs. ASA believes that it is critically important that any Doha Round Agreement must require that advanced developing country exporters, or their world-class export sectors, be subject to the same rules and disciplines in all three pillars as developed countries.

The U.S. WTO Proposal

I would like to comment briefly on the proposal advanced by Ambassador Portman in Zurich last month. We agree with the Administration that the status quo in international trade is unacceptable. In addition to sharply reduced tariffs and disciplines on advanced developing country exporters, we need a farm program safety net that is beyond WTO challenge. Following the precedent of the WTO cotton case and expiration of the Peace

Clause that protected our farm programs from challenges under the Uruguay Round Agreement, the current situation is not a viable alternative to a new agreement.

ASA recognizes the proposal advanced by the Administration as a credible signal to the rest of the world that the U.S. is prepared to make substantial cuts in trade-distorting domestic support **if** market access barriers are greatly reduced and export subsidy practices are eliminated. The proposed cuts in domestic support would require fundamental changes in the structure of U.S. farm programs, including the marketing loan, which has been important in supporting soybean producer income when prices fall. In order to support restructuring current programs, we need assurances that the next farm bill will provide U.S. farmers with an adequate safety net, and that the current imbalance in crop program benefits will not continue to distort market signals.

On market access, the Administration's proposed cuts in tariffs by developed countries are substantial, and could expand soy and meat exports to these markets. However, the U.S. proposal did not specifically address the need for equally ambitious improvements in market access by developing countries. Developing countries are the markets of the future. In making the case for trade liberalization, the Administration has pointed out that 95 percent of the world's population lives outside our borders. We would note that 81 percent of this population is in developing countries. Of the 16 priority countries targeted by ASA for major improvement in market access, 14 are developing countries.

U.S. negotiators must ensure that modalities that provide preferential terms for developing countries, including Special and Differential treatment, identification of Special and Sensitive Products, and the use of the Special Safeguard Mechanism, do not restrict meaningful improvements in market access. The U.S. must ensure adequate market access to developing country markets through negotiation of meaningful TRQs with phased reductions in in-quota tariffs. ASA will monitor and work closely with USTR and USDA on this important part of the negotiations.

In addition, the Administration's proposal does not include specific language requiring world-class developing country exporters to undertake disciplines in the three pillars of domestic support, market access, and export subsidy practices, similar to those required of developed countries. Recent studies by Informa Economics and the USDA's Economic Research Service indicate that Brazilian farmers benefit from a national program that offers credit at interest rates of from 8.75 to 12.75 percent, compared to the prevailing commercial business rate of 35 percent. Credit provided under this program increased by 48 percent in 2004/05, to $13 billion. Subsidized credit to modernize Brazil's farm machinery doubled in the same year, to $5.5 billion. In addition, Brazil has frequently rescheduled farm debt for up to 25 years at 3 percent interest rates, which in times of high inflation amounts to giving Brazilian farmers free money.

Brazil also exempts or provides refunds for agricultural exports from its interstate movement tax, and from social welfare taxes, amounting to 21.25 percent of the value of the exported product. Finally, Brazil has a land tax system that encourages farmland expansion by taxing undeveloped land at a higher rate than land brought into production.

ASA believes strongly that these policies must be subject to discipline under the Doha negotiations. As with improving market access to developing countries, aggressive proposals and agreements in this area are key to ASA support for a WTO agreement.

We were pleased that the Administration's proposal did call for the elimination of differential export taxes since they have trade-distorting effects similar to export subsidies. Argentina and Malaysia, both major competitors in the export of soy and oil, make extensive use of differential export taxes to build-up their local processing industries and to provide the equivalent of an export subsidy to their processed product exports.

The EU's WTO Proposal

The EU's latest WTO proposal on agriculture, advanced last week, falls well short of the ambition of the U.S. proposal advanced last month. The EU proposes to reduce its domestic support by 70 percent, while the U.S. would require the EU to reduce by 83 percent. On market access, the EU would reduce the highest tariffs by 60 percent, compared to 90 percent proposed by the U.S. While the EU claims its proposal would cut its average tariffs by 46 percent, a more accurate assessment would place the average reduction at 39 percent – barely more than the 36 percent achieved in the Uruguay Round Agreement. Moreover, the EU continues to insist on exempting 8 percent of its tariff lines from the cuts that would be required by reduction formulas. The EU's proposal has been criticized by all participants in the negotiations, and will not encourage other developed as well as developing countries to make significant offers on market access.

The EU is also targeting the U.S. counter-cyclical income support program, claiming it is "the most trade-distorting" U.S. farm payment and should not be eligible for inclusion in the Blue Box. This is not only incorrect, but it represents a complete reversal from the EU's position prior to the Cancun Ministerial, when they agreed to include the counter-cyclical program in exchange for U.S. support for continuing the Blue Box. In addition, the EU is insisting on further disciplines on export credits and on food assistance, including requiring non-emergency food aid to be made in the form of cash grants. Unless these conditions are withdrawn, the U.S. agricultural community will not be able to support a new WTO agreement that contains such conditions.

Conclusion

Mr. Chairman, U.S. soybean farmers would benefit greatly from a good Doha Round agreement. However, they would not be served well by or support a poor or lop-sided agreement that would require substantial cuts in U.S. amber box domestic support, but would not result in substantial market access gains to developing country markets, and that did not make world-class developing country exporters subject to similar disciplines as developed countries. It would be helpful if developing countries that have so much to gain from opening global markets would define their priorities in terms of their own self-interest rather than as a broader confrontation with developed countries. We very much hope this message will prevail as we approach the Ministerial meeting in Hong Kong.

Thank you, Mr. Chairman.